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The City of San Diego

ITEM # 5400

MANAGER'S REPORT

DATE ISSUED: November 25, 1996

REPORT NO. 96-252

ATTENTION: City Council Meeting of November 26, 1996

SUBJECT: Amended Agreements for the Stadium Improvement Project

SUMMARY

Issues:

Should the City Council authorize the City Manager to execute, on behalf of the City:

- a) The First Amendment to the 1995 Agreement for Partial Use and Occupancy of San Diego Jack Murphy Stadium, dated May 30, 1995;
- b) The First Amendment to the Facilities Use and Occupancy Agreement, dated May 30, 1995;
- c) The First Amendment to the 1995 Agreement for Use and Occupancy of the Skybox Areas at San Diego Jack Murphy Stadium, dated May 30, 1995 (collectively called the "1995 Chargers Agreements");
- d) A Letter Agreement between the Chargers Football Company and the City?

Manager's Recommendation:

Introduce the ordinance.

Fiscal Impact:

The amended agreements with the Chargers are necessitated by an \$18 million increase in the scope and cost of the Stadium improvement project. As a result of litigation, the construction of the Stadium improvement project has been delayed by over a year resulting in increased costs due to the accelerated construction schedule and inflation (\$6.2 million). Additional improvements to

the Stadium total \$11.8 million. These additional improvements are necessitated as a result of the continued negotiations with the Chargers and need to be completed by the 1998 Super Bowl.

It is now contemplated that the Stadium improvements will be financed in two phases. Phase I will finance various improvements to the Stadium and the construction of the Chargers Training Facility. Phase I will total \$60 million and will be funded by proceeds received from the issuance of lease revenue bonds. Phase II will finance the balance of the improvements to the Stadium. Phase II will provide a not-to-exceed amount of \$18 million in construction proceeds. Phase II is anticipated to be financed by a supplemental issuance of lease revenue bonds and funded by additional revenue paid by the Chargers of approximately \$1.25 million per year plus one time revenue of \$2.5 million realized by the City from hosting the 1998 Super Bowl.

The 1995 Chargers Agreements provided for a ticket payment equal to \$1.50 per ticket beginning with the 1997 football season (FY 1998). Under the amended agreements, the Chargers will pay to the City additional consideration in an amount equal to \$3.00 per ticket sold. Additional revenue to the City from the increased ticket payment, from \$1.50 to \$3.00 per ticket, is estimated to be \$960,000 annually.

At current interest rates, lease payments for a Phase I taxable lease revenue bond issuance (providing \$60 million in construction proceeds) are estimated to range from \$5.2 to \$5.5 million annually. Lease payments for a Phase II bond issuance (providing \$18 million in construction proceeds) are estimated to range from \$1.5 to \$1.7 million annually. Total lease payments for both Phase I and Phase II are estimated to range from \$6.7 to \$7.2 million annually.

BACKGROUND

In May 1995, the City Council authorized the 1995 Agreements with the Chargers which provide for improvements of the Stadium and construction of a practice field and training facility as well as extending the Chargers lease to 2020. The Agreements also provide for an annual increase in rent of \$1.1 million to be paid by the Chargers after the Stadium improvements are completed. Due to the delay in constructing the \$60 million in improvements to the Stadium, the 1995 Chargers Agreements require amendments to revise certain terms and project completion dates.

In February 1996, the City filed an action to validate the major financing documents relating to the issuance of lease revenue bonds to finance the Stadium improvements. The legality of the lease financing was challenged by Richard Rider, Bruce Henderson and Steve Green (collectively called "Rider"). In April 1996, the City received a favorable summary judgement and Rider appealed. The California Court of Appeal, Fourth Appellate District, upheld the decision of the Superior Court and reaffirmed the legal validity of the City's proposed lease financing in a published decision filed in July

1996. Rider again appealed and in October 1996, the California State Supreme Court declined to review the case.

As a result of the litigation, the construction of the Stadium improvement project has been delayed by over one year. Construction is now scheduled to begin in January 1997 and has been accelerated to complete the project by September 1997, in time for the 1997 football season and the January 1998 Super Bowl. To meet this schedule, the design/build team of Nielsen-Dillingham will need to work extra shifts and overtime, which in turn has increased the cost of the project. Additionally, project costs have increased due to inflation since the project was bid over a year ago. These cost increases total \$6.2 million.

DISCUSSION

The Stadium Improvement Project

It is recommended that the Stadium improvement project be financed in two phases. Phase I will include expanding the seating capacity, the conversion of general admission seating to the first half of the planned club seats, constructing new skyboxes, refurbishing existing skyboxes and other portions of the Stadium including a new east end zone colorboard (installed in April 1996), upgrading the press box, and constructing the Chargers Training Facility. Phase II will include upgrading the existing lounges, the conversion of general admission seating to the second half of the planned club seats and the installation of the west end zone colorboard. The improvements, once complete, will increase seating capacity at the Stadium from approximately 60,900 to up to approximately 71,500 including up to approximately 7,800 new club seats at the loge level and up to approximately 29 new skyboxes.

Amendments to the 1995 Chargers Agreements and Chargers Letter Agreement

Authorization for the City Manager to enter into a Letter Agreement with the Chargers is required for purposes of approving certain improvements and alterations to the Stadium.

Authorization for the City Manager to enter into amendments to the 1995 Chargers Agreements will provide for an increase in the amount the Chargers pay to the City, between the 1996 and 1997 football seasons, from \$3.5 million to \$6.3 million.

The amendments to the 1995 Chargers Agreements make the following changes:

- *Rent* - Overall, the Chargers will make additional rent payments of approximately \$1.25 million per year.
- *Additional Consideration* - The 1995 Chargers Agreements provided for a ticket payment of \$1.50 per ticket sold at Pre-Season and Regular-Season Chargers games beginning with the 1997 football season (FY 1998). Under the amended

agreements, the Chargers agree to pay to the City additional consideration in the amount equal to \$3.00 per ticket sold beginning with the 1997 football season (FY 1998) through the term of the Agreement. Additional revenue to the City from the this payment is estimated to be \$960,000 annually.

- *Skybox Rent* - The 1995 Chargers Agreements provided for the Chargers to pay to the City rent in an amount equal to 10% of all skybox revenue. Under the amended agreements, beginning with the 1997 football season through the 1999 football season (FY 1998 - FY 2000), the Chargers will pay rent to the City in an amount equal to 29% of revenue derived from the 79 existing skyboxes and 10% of revenue derived from the new, additional skyboxes. Beginning with the 2000 football season (FY 2001) and thereafter, the Chargers will pay rent to the City in an amount equal to 10% of revenue derived from all skyboxes.
- *Construction Dates* - Stadium improvement construction commences on or before January 15, 1997, and is substantially completed by September 1, 1997, and fully completed by December 1, 1997. Chargers' Training Facility construction commences on or before January 15, 1997, and is complete on or before June 30, 1997.
- *Plaza Level Cross Aisle* - The Plaza Level cross aisle shall remain in its present condition between the foul poles. The balance of the cross isle will be filled with seats to increase seating capacity.
- *Signage* - The Padres have the exclusive right to operate, manage and control all scoreboards and signage at the Stadium until March 31, 2000, including a new colorboard installed in the west end of the Stadium.

Upon installation of a new colorboard at the west end of the Stadium, net signage revenue from the new colorboard shall be split 50/50 between the Chargers and the Padres.

- *Parking Rate* - Commencing with the 1997 Pre-Season and throughout the term of the Agreement, the Chargers shall have the right (exclusive of those increases necessary for the improvements) to make all parking fee decisions.
- *Moving Costs* - Due to the delay in construction of the improvements, the Chargers will be required to relocate to temporary space. The City will provide for this interim space and relocation cost.
- *Replacement of Seats* - General Admission Seating not replaced as part of the improvement project will be replaced by August 1, 2000, if sponsors can be found to fund the replacement.

CONCLUSION

It is recommended that the City Council authorize the City Manager to execute amendments to the 1995 Chargers Agreements and a Letter Agreement with the Chargers. These changes will provide the City with an extremely competitive municipal lease and a state-of-the-art professional sports facility.

ALTERNATIVES

Do not authorize the City Manager to execute amendments to the 1995 Chargers Agreements nor a Letter Agreement with the Chargers. Delay improvements of the Stadium.

Respectfully submitted,



JACK MCGRORY
City Manager

Attachments

1. Jack Murphy Stadium Lease Analysis - Renovated Facility

Jack Murphy Stadium Lease Analysis - Renovated Facility

In Thousands

 Phase I - \$60 million in bond proceeds
 Phase II - \$18 million in bond proceeds

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
STADIUM REVENUE										
Chargers	\$3,540	\$3,510	\$6,340	\$6,650	\$7,350	\$7,280	\$7,430	\$7,580	\$7,750	\$7,910
Padres	\$2,620	\$2,380	\$3,060	\$3,270	\$1,670	\$0	\$0	\$0	\$0	\$0
Aztecs	\$690	\$600	\$660	\$680	\$700	\$720	\$750	\$770	\$790	\$810
Special Events/Super Bowl	\$2,600	\$1,730	\$4,910	\$3,130	\$3,520	\$3,600	\$3,690	\$3,780	\$3,870	\$3,970
Interest Earnings	\$0	\$1,030	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150
Expenses Reimb-Bond Proceeds	\$0	\$1,250	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Midway/Sports Arena Lease Revenues	\$1,030	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
TOTAL STADIUM REVENUE	\$10,480	\$12,500	\$17,120	\$15,880	\$15,390	\$13,750	\$14,020	\$14,280	\$14,560	\$14,840

STADIUM EXPENSE										
Stadium Operating/Misc Expense	\$6,490	\$8,980	\$9,300	\$9,180	\$9,710	\$6,210	\$6,520	\$6,850	\$7,300	\$7,660
Debt Service - Existing Bonds	\$2,380	\$1,410	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service - Ph 1 Improvements	\$0	\$0	\$5,400	\$5,260	\$5,250	\$5,250	\$5,250	\$5,470	\$5,470	\$5,480
Debt Service - Ph 2 Improvements	\$0	\$0	\$1,480	\$1,630	\$1,630	\$1,630	\$1,630	\$1,700	\$1,690	\$1,700
TOTAL STADIUM EXPENSE	\$8,870	\$10,390	\$16,180	\$16,070	\$16,590	\$13,090	\$13,400	\$14,020	\$14,460	\$14,840

Net to City	\$1,610	\$2,110	\$940	(\$190)	(\$1,200)	\$660	\$620	\$260	\$100	\$0
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Cumulative	\$1,610	\$3,720	\$4,660	\$4,470	\$3,270	\$3,930	\$4,550	\$4,810	\$4,910	\$4,910
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